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RUEHCV/AMEMBASSY CARACAS 9960
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SUBJECT: CAMISEA PIPELINE UPDATE: AUDITS

REF: LIMA 0952

11. SUMMARY: Three audits of Camisea pipeline construction and performance are in progress. The GOP contracted its audit to German firm Germanischer Lloyd, and a report is expected early next year. Camisea Consortium TGP delivered its internal audit report to the GOP, and a condensed version for public release is expected in the coming weeks. The Interamerican Development Bank (IDB) audit of environmental/social impacts should be completed by March 2007. Separate reports on pipeline sections for two of the liquids pipeline ruptures were completed, showing landslides as the cause of the ruptures. END SUMMARY.

12. After the fifth Camisea liquids pipeline incident in March (Reftel), the GOP's Energy Ministry (MEM) and Camisea pipeline consortium Transportadora de Gas Peruana (TGP) commissioned technical audits of the pipeline that are still in progress. The Interamerican Development Bank (IDB) commissioned an environmental/social audit that will not deal with engineering issues. The two technical audits are examining pipeline routing, construction issues and operations. While the audits are examining the gas pipeline, the focus is on the jungle portion of the parallel gas liquids pipeline that has suffered five integrity incidents since gas and liquids began flowing in August 2004.

13. The MEM evaluated eleven bidders for the GOP audit, and in September awarded a \$1.9 million contract to the Mexican subsidiary of the German technical monitoring firm Germanischer Lloyd; the contract was finalized October 17. Germanischer Lloyd Peru officials told Econoff that the firm was under strict instructions not to discuss the audit with third parties. Gustavo Navarro, MEM Hydrocarbons director and the GOP overseer of the audit contract, told Econoff that the audit was progressing but no report was expected until February. He noted that the MEM, TGP and Banco de Credito had finalized an agreement to fund the audit. TGP Chief of Corporate Relations Rafael Guarderas confirmed that Germanischer's work was proceeding and that TGP was organizing field visits for the firm in December.

14. Guarderas also reported on TGP's internal audit. TGP has spent \$40 million over the last eight months and employed 1500 workers to analyze and perform corrective maintenance to the entire pipeline

system. TGP used robotic "pigs" to travel the inside of each section. It found anomalies in 30 pipe sections out of about 48,000 sections in total; most of the anomalies were gashes and none indicated significant risk of rupture. TGP has issued its report to the MEM and is preparing a condensed version of the report which will be released to the public.

¶5. Two pipeline sections involved in rupture incidents were removed from the system to undergo physical analysis. One section, from the November 2005 incident, fell into a river and TGP workers could not extricate it until this Spring. The other section, from the March 2006 rupture, was sent to Texas engineering firm MCI for analysis. Reports on both sections revealed that environmental pressures (landslides) and not structural or welding defects caused the sections to break.

¶6. The IDB is funding its own environmental and social audit (AASI) of the Camisea project as part of its 2003 loan commitment; this audit will not deal with engineering aspects of the pipeline. AASI auditors are in the field now, and the final report is expected in March 2007.

COMMENT

¶7. (U) The results of the various pipeline audits will be important to assess lessons learned from the past, but looking to the future is even more important. TGP has been in a constant process of refining the pipeline routing and reinforcement. The rainy season that has just begun will be the test of TGP's improvements, as all of the incidents have occurred during the November to April rains when waterlogged earth exerts pressure on the pipes.
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